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TO: All Workers' Compensation Insurance Companies, Self-Insured Employers,
Group Funds and Third-Party Administrators

FROM: Jay Angoff, Director, Missouri Department of Insurance
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DATE: December 22, 1997

SUBJECT: Workers' Compensation Administrative Tax and Second Injury Fund
Surcharge

Effective January 1, 1998 (for calendar year 1998), the full 2 percent Workers' Compensation Administrative Tax and 3 percent Second Injury Fund Surcharge will be assessed on workers' compensation premiums.

The reimposition follows several years of a suspended or substantially reduced Workers' Compensation Administrative Tax and Second Injury Fund Surcharge. Under the 1993 reform law, the law was designed to spend down accumulated fund surpluses. Beginning in 1994, Missouri was able to suspend the imposition of both assessments because of these surpluses. However, in 1997, the tax and surcharge were imposed at only half of their authorized levels. These steps saved Missouri businesses \$100 million in taxes and surcharges.

In 1994, after new claim and settlement guidelines were applied to the Second Injury Fund, the balance or surplus reached more than \$71 million. At the end of 1997, the projected Second Injury Fund balance will decrease to less than \$11 million. This \$11 million is not enough to fund 1998 claims and other costs.

In 1994, the Workers' Compensation Administrative Fund posted a record high balance of \$35 million. In addition, rapidly increasing premiums of the late eighties and early nineties expanded both the tax base and collections for the fund, which covers Missouri's expenses for overseeing this insurance system. At the end of 1997, the projected balance will be only \$7.4 million, based on rapidly declining workers' compensation premium costs statewide.

Certainly, despite the reimposition of the full Workers' Compensation Administrative Tax and Second Injury Fund Surcharge, Missouri's business community is experiencing record financial relief. Missouri has reduced premium costs overall and restored the integrity of the Second Injury Fund for workers with prior disabilities.

Following are some additional achievements:

- Since 1994, Missouri businesses have saved an estimated \$245 million from rate reductions, not including special discounts of up to 50 percent granted to safety-conscious businesses.
- Through September 1997, 240 of Missouri's 293 licensed workers' compensation insurers have filed rate decreases averaging 13 percent for this year alone.
- The Missouri Department of Insurance and the National Council on Compensation Insurance have recommended that insurers reduce rates by double-digit levels in 1998.
- Workers' compensation losses (benefits paid and incurred) have dropped from \$605 million in 1991 to \$279 million in 1996. Insurers are paying a record low 47 cents in benefits for each \$1 in premiums collected with profitability exceeding 23 cents on the dollar in 1995. Based on preliminary figures, profitability rose to 34.1 percent in 1996.
- Business, workers, insurers and government have worked together to achieve these results, which have fostered a healthy business environment, made Missouri an attractive and competitive workers' compensation market and provided fair treatment for injured workers.

The Departments of Insurance and Labor and Industrial Relations look forward to working with you in 1998. If you have any questions or need additional information, please contact David Murray, Department of Insurance at (573) 751-3365.